



**COUNCIL SUBCOMMITTEE ON ECONOMIC DEVELOPMENT**  
**SUMMARIZED MINUTES**

February 21, 2013

3:00 p.m.

City Hall, Kiva Conference Room  
3939 N. Drinkwater Blvd, Scottsdale, AZ 85251

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- PRESENT:** Mayor W.J. "Jim" Lane  
Councilman Dennis Robbins  
Councilwoman Linda Milhaven (arrived at 3:12 p.m.)
- STAFF:** Dan Worth, Acting City Manager  
Cindi Eberhardt, Assistant Director, Economic Development  
Derek Earle, Acting Director, Public Works  
David Smith, City Treasurer  
Lee Guillory, Finance Director  
Rob Millar, Strategic Programs Manager  
Paul Katsenes, Executive Director, Community and Economic Development  
Kim Hanna, Economic Development Specialist  
Ben Moriarty, Downtown Business Specialist  
Bill Peifer, Senior Project Manager  
Bob Tunis, Economic Development Manager  
Linda Walton, Economic Development Specialist  
Jim Ford, Deputy Fire Chief  
Steve Geiogamah, Tourism Development Coordinator  
Jack Shafer, Assistant City Attorney  
Kelly Ward, Assistant City Attorney
- GUESTS:** Rachel Sacco, Scottsdale Convention and Visitors Bureau  
Paul Messenger, Scottsdale Museum of the West  
Mike Fox, Scottsdale Museum of the West  
Ned O'Hearn, Scottsdale Museum of the West  
Jim Bruner, Scottsdale Museum of the West  
Jay Parry, Arizona Super Bowl Host Committee  
Ray Artigue, Artigue Agency  
Winnie Stolper, Arizona Super Bowl Host Committee

**Call to Order/Roll Call**

Mayor Lane called the regular meeting of the Council Subcommittee on Economic Development to order at 3:04 p.m. A formal roll call confirmed members present as stated above, noting the presence of a quorum.

**1. Approval of January 10, 2013 Minutes**

**COUNCILMAN ROBBINS MOVED TO APPROVE THE MINUTES OF THE JANUARY 10, 2013 MEETING OF THE COUNCIL SUBCOMMITTEE ON ECONOMIC DEVELOPMENT AS PRESENTED. MAYOR LANE SECONDED. THE MOTION CARRIED BY A VOTE OF TWO (2) TO ZERO (0). COUNCILWOMAN MILHAVEN WAS NOT YET PRESENT.**

**2. Arizona Super Bowl XLIX Host Committee**

The Subcommittee reviewed a request for the authorization of \$645,840.32 from the City's portion of the bed tax to be allocated toward tourism-related event development for the Arizona Super Bowl Host Committee. Jay Parry, CEO of Arizona Super Bowl Host Committee (Committee) said the committee is raising money to support its activities for the 2015 game, and is executing the plan that was submitted with the winning bid. The Committee consists of 19 business leaders from around the Valley, each of whom has committed to raising \$2 million.

Steve Geigamah, Tourism Development Coordinator, reported that the total economic impact of the 2008 Super Bowl on the metropolitan Phoenix area was \$500 million. International and domestic media coverage equated to \$16 million in paid value. Scottsdale's visual portrayal and on air mentions have been conservatively valued at \$1.75 million. Mayor Lane inquired whether there was any way to guarantee that Scottsdale would be portrayed as prominently in 2015 as it was in 2008. Rachel Sacco of Scottsdale Convention & Visitors Bureau (SCVB) said the ESPN bidding process was very competitive in 2008. The SCVB intends to pursue the bid again in 2015 with some very specific sites in mind. The game resulted in a huge recoup of bed tax dollars in 2008 compared to the prior year, and retail sales tax revenue was even larger. Occupancy increased between 30% and 40% during that period, and hotel revenue increased between 28% and 77%. More than 50 private parties were held in Scottsdale, and overall the City recouped more than twice what it invested.

Mr. Geigamah said that in 2011, City Council passed a resolution to support the bid. The Committee is seeking \$3 million from cities in Maricopa County, including \$645,840.32 from Scottsdale. Staff proposes three annual installment payments of \$215,280, which would come from the New Event Development Fund. The City would also provide in-kind services, which last time amounted to approximately \$400,000. The Tourism Development Committee (TDC) recommended carrying forward the request to City Council on March 19.

Mayor Lane said the requested amount from Scottsdale seems high, considering Glendale is the host city. Winnie Stolper, Chief Administrator Officer, Arizona Super Bowl Host Committee, explained that Scottsdale's allocation is proportional to its share of hotel room sales. Phoenix's allocation is substantially larger at \$1.4 million. The proposed agreement ensures that Scottsdale will receive true value for its contribution through hospitality, logo recognition and other benefits. Mayor Lane expressed concern that the Scottsdale's cost has essentially doubled since the last time, even though the economy is in worse shape than in 2008. In the past, some communities opted not to support the Committee, yet still benefited from hotel room nights during the event. He said he would support an agreement for a smaller amount in exchange for substantiated value.

Ms. Parry explained that the request has increased so much because the event has gotten so much bigger, and the competition between bidding cities has increased. Worldwide media exposure has grown substantially over the past few years. The Committee is focused on the

economic development aspects of the Super Bowl. Last time, the Greater Phoenix Economic Council (GPEC) brought in a group of 50 CEO's from companies who were good prospects for relocating to the Valley. Five of them did. For the 2015 game, the Business Connect Program provides local small businesses with training on how to obtain contracts during the Super Bowl, as opposed to the NFL bringing in companies from outside the market. The Committee's objective is to maximize the benefit to corporate and municipal partners over the 18 months leading up to the game. Many cities felt Scottsdale received more than its fair share in 2008. Ms. Stolper said a familiarization tour is planned one year in advance of the game to expose the NFL to the venues that are available for private events. The Committee is intent on over-delivering for every partner.

Mayor Lane said he understands the advantages and the audience that the Super Bowl brings in, but he requested a delineation of the benefits Scottsdale could expect for its investment. Ms. Wolper described the Super Bowl bidding process, noting that competing cities add enhancements each time to sweeten their deals. Those enhancements eventually become part of the specifications, and the NFL's expectations for host cities has grown over time. The Committee was careful not to overextend, and even pulled out of the 2010 bidding process because the local economy could not support it. Other committees have overextended themselves. Mayor Lane felt that the economic conditions have changed dramatically since 2008, and surmised that municipalities will be much more cautious this time.

### **3. Downtown Western Museum**

Rob Millar, Strategic Projects Manager, stated that City Council will be asked to consider adopting a resolution next week to authorize a management agreement for Scottsdale Museum of the West (SMoW), and an ordinance to deal with the financial considerations. The museum concept was formed 30 years ago by community members who wished to preserve, protect, and promote Scottsdale's western heritage.

On October 20, 2012, City Council provided direction on the results of the Request for Qualifications (RFQ) process. Scottsdale Museum of the West was the only respondent to the RFQ. City Council directed staff to develop financial planning scenarios, analyze the capital cost estimates provided by SMoW, extend the 10% allocation of the bed tax, begin a design/build solicitation process, and develop a management agreement. Staff also contracted with an independent third-party consultant, ConsultEcon, to validate operating plans, market conditions, and viability of the SMoW.

Mr. Millar said the Phoenix metropolitan area's population is large and growing. The visitation potential ranges from 87,000 to 113,000 per year, with stabilized attendance estimated at 103,000 by year five. Operating expenses would range from \$2.2 million to \$2.8 million. These numbers were benchmarked against other museums that have been in operation for many years.

Mr. Millar summarized the management agreement between the City and SMoW to operate the City-owned facility. SMoW's responsibilities are to participate in design and construction and build exhibits. If SMoW fails to perform, their owned collection would belong to the City. The museum would be referred to as Scottsdale's Museum of the West. No other naming rights are contemplated, but interior spaces could provide naming options in the future with City Council approval. The museum must be open a minimum of 300 days per year, especially during downtown nighttime events such as Art Walk. SMoW must establish gift shop and business

operations, comply with federal and state taxes, and the City of Scottsdale must be granted a 15% voting stake in the Board of Directors.

The term of the agreement is for ten years, with three ten-year extension options. SMoW must engage in fundraising, develop a five-year matching donation program, be responsible for staff salaries, and must have a \$500,000 letter of credit after 36 months. The City would call upon that letter of credit to sustain operations or make changes, should SMoW fail to perform. SMoW must also provide an annual report and a third party independent audit report.

Mr. Millar said the City of Scottsdale's responsibilities are to build the entire building shell, tenant improvements and specialty work. The City is offering a \$400,000 annual matching grant program per year for five years, funded by the carryover from the infrastructure element of the bed tax. Anything left over would remain in trust for use in future years. Mayor Lane inquired whether the grant would be provided every year, regardless of the results of the fundraising. David Smith, City Treasurer, responded that the City would be matching the museum's contributed funds up to a maximum of \$400,000 in qualified cash donations per year. The money could fund the museum's operating losses or be saved for future use. If the museum raises \$300,000 in a year, the City would match that amount, even if it were not needed to cover operations.

Mayor Lane inquired about the intent behind limiting the program to qualified donations. He felt that the City would be interfering with the museum's fundraising effort and asked museum representatives to comment. Mike Fox, Director/CEO of SMoW explained that the museum is allowed to count donors only once for the matching program, which encourages the raising of new money each year instead of just relying on the same donors. Mr. Millar added that by establishing minimum and maximum qualifying donations, the intent is to encourage broad community support. Mayor Lane felt it would be better to allow the matching program to apply to any size cash donation. Councilman Robbins concurred. Councilwoman Milhaven offered no strong preference either way, but noted that many matching programs place limits on donations.

Lee Guillory reviewed staff's recommendation for how to fund the capital costs of the building. Several bed tax allocations of \$600,000 each can be applied towards multi-year commitments of debt service for tourism-related projects. Some of these have been committed already, including one reservation for the museum that supports \$8 million of debt service towards the building. Bed tax revenues and Princess lease revenues are expected to increase this year, making an extra \$400,000 allocation available. The cost of the building plus the reserve fund is \$15 million, requiring annual debt service of \$1 million per year. The additional allocation of \$400,000 added to the current allocation would cover this debt service. Without the reserve, debt service requirements would drop to \$900,000 per year. Staff also recommends that the matching grant funds come from the Tourism Fund carryover balance, which currently sits at about \$900,000. The 2013 carryover is estimated to be \$3 million.

Councilman Robbins proposed taking the reserve from the carryover, and only using one and a half allocations on annual debt service. Mayor Lane agreed that that would save money in financing costs.

Councilman Robbins inquired about major capital operating expenses. Bill Peifer explained that the City would maintain large-scale equipment and major elements, while SMoW would handle the day-to-day commodities.

Mr. Fox said startup costs are estimated at \$4.5 million. Many donors are waiting for the City to commit before they contribute. Councilwoman Milhaven stated that she supports the museum and believes it would be a significant addition to Scottsdale, but in the interest of being prudent with taxpayer money, she proposed that the City demonstrate its commitment to SMoW without crossing the point of no return. If the City accepts the RFQ, the management agreement, and the design/build, that should give SMoW the confidence to encourage donors to demonstrate their capacity to support the endeavor. Once that has been done, the City could authorize the MPC bonds.

Paul Messenger noted that once a donor gives, their money is gone. They can no longer back out at that point, while the City still could. The focus should be on the importance of the museum. The gallery community needs the support, and Scottsdale needs to retain its western heritage downtown. Once the galleries are gone, they will not be coming back. Scottsdale is a center of western art, but must build on its legacy if it is to maintain that position. Large projects like TPC and Chase Field were gambles, but they have become long-term successes. All ten of the major western museums in the U.S. have raised money and have been successful. A tremendous amount of the art in those museums comes out of Scottsdale and Arizona, yet there is no such museum in the state. He is confident that the museum will be a success if built.

Mayor Lane said the topic of SMoW's wherewithal comes up frequently, and it is based on the perceived potential for an operating deficit. He requested a report quantifying the financial support that could be expected from the private sector, subject to a positive decision by the City. Councilwoman Milhaven felt that the museum would work, but if the private sector cannot raise the money, the City's decision becomes much different.

Councilman Robbins inquired whether a window of opportunity exists for securing private commitments before the lease goes out to bid. Dan Worth said the City would begin advancing funds once the design/build contract is authorized, while the actual construction contract would be approved later. Mayor Lane inquired whether the timeline provides SMoW with enough time to be able to substantiate private sector support in some way, without revealing the names of the donors. Once the matter is before the full City Council, they will likely ask the same question.

City Attorney, Kelly Ward explained that the agreement contains no provision to decline to award the construction contract if the management company fails to reach a benchmark. By signing the management agreement, the City is promising to build the building regardless of the outcome of the fundraising effort. It would be better practice to describe the benchmark requirements up front so that both parties understand the rules. Ned O'Hearn of SMOW stated the SMoW Board has had the same discussion several times in recent months. The Board approved the agreement in good faith, and if it were amended on the City Council dais, support for it would falter. The private sector would not support the agreement knowing that the City could back out.

Mr. Messenger said every business starts with a decision. He felt the community is committed to the project, and the location is perfect for a western museum. SMoW is willing to put everything it has into this effort, and hopes the City would do the same. This is the least expensive of the tourism-driver projects the City is considering, but he felt it would do the most to drive tourists to the downtown area. Both sides have to accept some risk.

Mayor Lane clarified that the Subcommittee is not seeking a permanent change to the agreement, but concern lingers over SMoW's ability to meet the financial commitments

necessary to go forward. Mr. Fox said SMOw would agree to share the progress made in reaching its various fundraising milestones. Its relationship with City staff is strong. He called for an informal understanding that both sides would engage in open communication. Nobody wants to see a facility built if the SMOw cannot fulfill its part. Mr. Millar noted that the agreement stipulates that the contract administrator has the right to request performance updates with ten days' notice. He suggested a potential compromise that both parties would informally agree to engage in an ongoing dialogue on performance monitoring without modifying the contract.

Councilwoman Milhaven said it would not be constructive to make changes to the agreement at the City Council meeting. The City would not have come so far if it did not respect the integrity of the people involved in SMOw and their ability to get the job done, but she is puzzled at the reluctance of SMOw to demonstrate some part of their capacity to raise \$4.5 million. The citizens of Scottsdale look to City Council to ensure that a balance is struck.

Mayor Lane explained that the Subcommittee is tasked with reviewing proposals and anticipating the questions that may or may not be raised by the full Council. His understanding is that SMOw is offering an informal commitment to share information on their capacity to meet their fundraising goal so the City could get assurances that the project is on track to succeed. Nobody is looking to terminate the project.

The Subcommittee agreed by consensus to forward the proposal to the full Council.

#### **4. Economic Development Report**

Ben Moriarty, Downtown Business Specialist, reported on efforts to welcome the San Francisco Giants back to Scottsdale for this year's Cactus League. Posters are attracting Giants fans into shops downtown. Fans who make retail purchases downtown can receive an appreciation pin. This year's Baseball Festival went well, with 6,000 people attending per day. The numbers were similar to last year.

Cindi Eberhardt, Economic Development Assistant Director, reported on a recent delegation from Kelowna of business leaders who visited Scottsdale. Mayor Lane said the President of RBC Wealth Management, John Taft provided an outstanding report at the Scottsdale Business Development Forum luncheon.

Ms. Eberhardt reported a summary of new business prospects and expansions of existing businesses.

#### **5. Open Call to the Public (A.R.S. §38-431.02)**

None.

#### **6. Future Agenda Items**

**Adjournment**

With no further business before the Subcommittee, the meeting adjourned at 5:39 p.m.

Respectfully submitted,  
A/V Tronics, Inc. DBA AVTranz.